BUDGET 2007
MANAGING OUR GROWTH

Third Quarter Fiscal Update
2007-2008

February 2008

Alberta

UPDATING ALBERTANS

The *Third Quarter Fiscal Update* consists of two parts – the updated 2007-08 forecast for the entire fiscal year and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2007).

TABLE OF CONTENTS

2007-08 FORECAST

Highlights 1
Fiscal Summary 1
Revenue 2
Revenue 3
Expense 4
Expense Summary 5
Expense by Ministry 5
Capital Plan 6
Capital Plan Summary 6
Net Financial and Capital Assets 7
Balance Sheet 7
Other Tables
Capital Account 8
Net Financing Requirements 8
2007-08 Fiscal Year Assumptions and Sensitivities 8
Capital Investment and Amortization 9
Capital Grants to Local Authorities and Other Infrastructure Support 9
Alberta Sustainability Fund 10
Cash Adjustments/Requirements 10

ACTUAL RESULTS 11
Consolidated Fiscal Summary 12
Expense 13

2007-08 FORECAST

HIGHLIGHTS

Revenue. $38 billion, an increase of $2.7 billion from the budget estimate and $435 million from the second quarter forecast. The increase is due mainly to higher income tax revenue.

Expense. $33.8 billion, an increase of $701 million from the budget estimate and $289 million higher than the second quarter forecast. The increase from budget is primarily due to higher capital grants.

Surplus. $4.2 billion excluding the change in pension obligations, a $2 billion increase from budget and a $146 million increase from the second quarter forecast.

Pension Obligations. Have increased reflecting the government assuming the teachers' $2.2 billion pre-1992 pension obligations. Including the change in pension obligations, the surplus is forecast at $1.8 billion.

In-Year Surplus Allocation. After adjustments and the change in Heritage Fund inflation-proofing, $834 million is available for allocation in the third quarter: $556 million is allocated to the Capital Account and $278 million to the Heritage Fund.

Total Savings Allocation. $1.9 billion has been allocated to savings including $1.6 billion to the Heritage Fund, $227 million to the Scholarship Fund, and $150 million to the Medical Research Endowment Fund.

Total Capital Account Allocation. $2.7 billion has been added to the Capital Account through in-year allocations. The deposit is offset by budgeted and in-year withdrawals to support capital spending. The net increase in the Capital Account is $1.7 billion.

FISCAL SUMMARY[a]

(millions of dollars)

		2007-08			
			3rd Quarter	Change from	
		Budget	Forecast	Budget	2nd Quarter
1	**Revenue**	35,332	**37,984**	2,652	435
2	**Expense**				
3	Operating expense	27,019	**27,175**	156	220
4	Capital grants	4,656	**5,182**	526	106
5	Disasters/emergencies/natural gas rebates	527	**560**	33	(28)
6	Capital amortization and nominal sum disposals	625	**616**	(9)	(9)
7	Debt servicing costs	235	**230**	(5)	-
8	**Total Expense**[b]	33,062	**33,763**	701	289
9	**Surplus**[c]	2,270	**4,221**	1,951	146
10	Less: Extraordinary expense (pre-1992 pension obligations of teachers)[d]	-	**2,215**	2,215	2,215
11	Less: Increase in other government pension obligations[d]	117	**226**	109	109
12	Surplus (including change in pension obligations)	2,153	**1,780**	(373)	(2,178)
	Cash Available For Allocation				
13	**Surplus** (excluding changes in pension obligations)	2,270	**4,221**	1,951	146
14	Cash adjustments/requirements[e]	(2,295)	**(597)**	1,698	557
15	Withdrawal from Capital Account	459	**967**	508	86
16	**Cash Available**	434	**4,591**	4,157	789
	Allocation				
17	Heritage Fund inflation-proofing	284	**451**	167	(45)
18	Heritage Fund allocation	-	**1,103**	1,103	278
19	Medical Research Endowment Fund	150	**150**	-	-
20	Scholarship Fund	-	**227**	227	-
21	Capital Account allocation[f]	-	**2,660**	2,660	556
22	**Total Allocation**	434	**4,591**	4,157	789

a Budget and quarterly numbers have been restated to reflect a change to the accounting treatment of spending on provincial highway rehabilitation. This change has decreased expense by $87 million and increased Capital Investment and the surplus by an equivalent amount.

b Capital Investment is not included in expense: 2,051 2,036 (15) -

c Subject to the *Fiscal Responsibility Act*. Does not include changes in pension obligations or equity of Crown-controlled SUCH sector organizations.

d Non-cash requirements.

e See page 10 for details.

f Net increase in Capital Account is $1.7 billion. This represents a $2.7 billion allocation less a $967 million withdrawal.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at $11 billion, an increase of $704 million from the budget estimate but $88 million less than the second quarter forecast. The increase from budget reflects higher oil prices partially offset by lower natural gas prices and a higher Canadian-US dollar exchange rate.

Natural gas royalties are forecast at $5.2 billion, $813 million lower than the budget estimate and down $213 million from the second quarter forecast. The decrease reflects lower-than-expected natural gas prices, which are forecast to average Cdn$5.85 per gigajoule (GJ) for the fiscal year. This is 90 cents lower than the budget estimate and 15 cents lower than the second quarter forecast. From April 2007 to January 2008, prices have averaged Cdn$5.71/GJ.

Total **oil royalties** are forecast at $4.5 billion, $1.6 billion higher than budgeted and up $126 million from second quarter. The increase reflects higher-than-expected oil prices, which are forecast at US$79.82 per barrel. This is nearly US$22 higher than estimated in the budget. From April 2007 to January 2008, prices have averaged US$78.66 per barrel.

The appreciation of the Canadian dollar relative to the US dollar has negatively affected both oil and natural gas royalties. The Canadian dollar is forecast to average 96.9 cents US for the fiscal year, up nearly 11 cents from budget.

Revenue **from bonuses and sales of Crown leases** is forecast at $1.1 billion, $96 million lower than budgeted and down $2 million from second quarter. The decrease from budget is due to the lower number of hectares sold and lower prices per hectare partly offset by an increase in oil sands land sales.

TAX REVENUE

Personal income tax revenue is forecast at $8.2 billion, up $884 million from the budget estimate, and $163 million higher than the second quarter forecast. The increase is the result of stronger-than-expected personal income growth in 2006 and 2007 and includes $273 million in prior years' adjustments.

Corporate income tax revenue is forecast at $4.4 billion, up $1.3 billion from the budget estimate, and $551 million higher than second quarter forecast. The increase reflects a stronger outlook for corporate taxable income and sustained economic growth. The $551 million increase from second quarter is due to prior years' adjustments related to overestimated income tax refunds.

Other tax revenue is forecast at $3.6 billion, down $23 million from budget. Increases of $45 million in fuel and insurance taxes, and the tourism levy, are more than offset by a $68 million decrease in tobacco and freehold mineral rights taxes.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at $3.2 billion, $550 million lower than budgeted and down $40 million from the second quarter forecast.

Health transfers and the Canada Social Transfer have decreased by $417 million from budget primarily due to higher income tax revenue in 2006-07 and 2007-08.

Other transfers are $133 million lower than budgeted and $26 million lower than the second quarter forecast. The decrease from budget is primarily due to reduced federal transfers for agricultural support programs.

INVESTMENT INCOME

Investment income is forecast at $2.7 billion, up $202 million from budget but down $105 million from the second quarter forecast.

Heritage Fund and endowment fund income is down $52 million from budget. The decreases from recent events in world capital markets and the strong Canadian dollar relative to the US dollar are partially offset by realized capital gains in the first two quarters.

Other investment income is forecast to be $254 million higher than budgeted mainly because of higher asset balances and higher yields from fixed income securities.

OTHER REVENUE

Total other revenue is forecast at $5 billion, up $178 million from budget but $27 million less than second quarter. The changes from budget include:

- $110 million increase in gaming and liquor revenue due to higher activity and sales;
- $63 million increase in health care insurance premiums due to more registrants;
- $63 million increase in revenue related to the *Climate Change and Emissions Management Act*. This revenue is set aside in the Climate Change and Emissions Management Fund for use in 2008-09;
- $88 million decrease in Alberta Treasury Branches revenue due to an estimated write-down in asset-backed commercial paper;
- $30 million net increase in other revenue.

REVENUE

(millions of dollars)

	2007-08				
		3rd Quarter	Change from		
	Budget	Forecast	Budget	2nd Quarter	Main Reasons for Change from Budget
Income Taxes					
Personal income tax	7,318	**8,202**	884	163	Higher personal income growth
Corporate income tax	3,126	**4,383**	1,257	551	Higher corporate taxable income/lower tax refunds
	10,444	**12,585**	2,141	714	
Other Taxes					
School property tax	1,378	**1,378**	-	-	
Tobacco tax	890	**870**	(20)	(20)	Lower-than-anticipated sales
Fuel tax	720	**755**	35	-	Stronger economic/population growth
Freehold mineral rights tax	333	**285**	(48)	(3)	Lower natural gas price/production
Insurance taxes	244	**247**	3	1	Better-than-expected prior year results
Tourism levy	65	**72**	7	3	Increase in hotel rates and number of stays
	3,630	**3,607**	(23)	(19)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	6,023	**5,210**	(813)	(213)	Lower natural gas price
Crude oil royalty	1,060	**1,564**	504	78	Higher oil price/production
Synthetic crude oil and bitumen royalty	1,795	**2,903**	1,108	48	Higher oil price
Coal royalty	15	**13**	(2)	(1)	Revised forecast
Bonuses and sales of Crown leases	1,214	**1,118**	(96)	(2)	Lower prices/fewer hectares sold
Rentals and fees	153	**156**	3	2	Fewer hectares
	10,260	**10,964**	704	(88)	
Transfers from Government of Canada					
Health transfers	1,828	**1,446**	(382)	(15)	Higher income tax revenue
Canada Social Transfer	924	**889**	(35)	1	Higher 2006-07 income tax revenue
Agriculture support programs	329	**195**	(134)	8	Lower CAIS program requirements
Other	634	**635**	1	(34)	Flood assistance/infrastructure transfers
	3,715	**3,165**	(550)	(40)	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,448	**1,538**	90	30	Higher activity
Liquor revenue	642	**662**	20	10	Increased sales
Alberta Treasury Branches	262	**174**	(88)	(99)	Write-down in asset-backed commercial paper
Other	6	**7**	1	1	Revised forecast
	2,358	**2,381**	23	(58)	
Investment Income					
Alberta Heritage Savings Trust Fund	1,219	**1,150**	(69)	(213)	Lower equity market returns
Endowment Funds:					
Medical Research	100	**105**	5	(12)	Higher asset balance
Science and Engineering Research	56	**55**	(1)	(2)	Lower equity market returns
Scholarship	42	**55**	13	(4)	Higher asset balance
Alberta Capital Finance Authority	295	**311**	16	16	Higher loan volume
Agriculture Financial Services Corporation	101	**105**	4	7	Higher balances
Sustainability Fund	275	**335**	60	35	Higher yields from fixed income securities
Debt Retirement Account	81	**85**	4	-	Higher yields from fixed income securities
Capital Account	210	**305**	95	55	Higher asset balance
Other	121	**196**	75	13	Higher asset balance
	2,500	**2,702**	202	(105)	
Premiums, Fees and Licences					
Health care insurance premiums	919	**982**	63	3	Increased number of registrants
Motor vehicle licences	332	**362**	30	9	Increase in vehicle registrations
Crop and hail insurance premiums	181	**147**	(34)	-	Lower participation
Timber rentals and fees	40	**35**	(5)	4	Pine beetle infestation and fire damage
Land titles	70	**81**	11	-	Strong real estate market
Other	334	**340**	6	-	Lands and grazing fees
	1,876	**1,947**	71	16	
Other					
Refunds of expense	100	**106**	6	3	Revised forecast
Climate Change and Emissions Management	-	**63**	63	-	Emissions management credits
Fines and penalties	95	**98**	3	-	Revised forecast
Miscellaneous	354	**366**	12	12	Canada Health Infoway
	549	**633**	84	15	
Total Revenue	35,332	**37,984**	2,652	435	

EXPENSE

TOTAL EXPENSE

Total expense is $701 million higher than budgeted, and up $289 million from the second quarter forecast. Changes from budget include:

- $526 million increase in capital grants;
- $248 million net increase in operating expense (less $92 million decrease in dedicated revenue/expense);
- $197 million increase for disasters and emergencies;
- $164 million decrease in natural gas rebates;
- $9 million decrease in capital amortization;
- $5 million decrease in debt servicing costs.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – $247 million consisting of $117 million for forest fire-fighting costs, $50 million for flood assistance and $80 million to fight mountain pine beetle infestations (of which $50 million was budgeted).

Natural Gas Rebates – $313 million in rebates are now expected to be paid. This is $164 million less than budgeted due to lower natural gas prices.

CAPITAL ACCOUNT

Capital grants have increased by $526 million from budget. Increases comprise $291 million for capital maintenance and renewal, primarily for schools, post-secondary and health facilities, $100 million for affordable housing, $74 million for municipal infrastructure support and a net $61 million in other capital grants. These increases have been funded from the Capital Account.

FUNDING FROM THE CONTINGENCY ALLOWANCE

In *Budget 2007*, $314 million was set aside in the Contingency Allowance for in-year, non-emergency operating expense increases and revenue reduction initiatives. The $248 million in-year operating expense increase has been funded from lapses and a $230 million draw from the Contingency Allowance.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – $141 million net increase, including $111 million for capital maintenance and renewal and $30 million for the University of Alberta utility system expansion.

Agriculture and Food – $162 million net decrease. Decreases in the AgriStability/CAIS program, crop and hail insurance payments, and other lapses, are partly offset by increases for the new Alberta Farm Recovery Plan, Agriculture Policy Framework initiatives and an extension to the Alberta Reference Margin Initiative.

Education – $177 million net increase. This includes increases of $97 million for capital maintenance and renewal, $52 million for the one-time $1,500 payment to teachers under the recently negotiated agreement, and a net $28 million in other areas.

Environment – $106 million net increase. This includes $85 million for a legal settlement with the Western Irrigation District, $15 million for developing a landfill for Wood Buffalo, and a net $6 million increase in other programs.

Finance – $28 million net increase. This includes an $18 million payment to the pre-1992 teachers' unfunded pension liability, pursuant to the recently negotiated agreement with teachers, $16 million for increased borrowing costs of Alberta Capital Finance Authority and a net $6 million in other decreases.

Health and Wellness – $54 million net increase, primarily for capital maintenance and renewal.

Infrastructure and Transportation – $47 million net decrease consisting of lapses of $164 million for natural gas rebates and $4 million in infrastructure planning, partly offset by increases of $23 million for capital maintenance and renewal, $33 million for provincial highway systems, $54 million for municipal support grants and $11 million for other expenses.

Municipal Affairs and Housing – $197 million net increase reflecting $164 million for affordable housing, $50 million for flood disaster assistance and $3 million for capital maintenance and renewal, partly offset by $20 million in deferred tank site remediation costs.

Seniors and Community Supports – $11 million net increase. Capital grants of $41 million for affordable supportive living projects are offset by $30 million in lower AISH payments due to lower caseload growth.

Sustainable Resource Development – $150 million increase, consisting of $147 million for forest fire-fighting and mountain pine beetle infestation costs, and a net $3 million in other expenses.

Other Ministries – $51 million net increase, primarily for public service salary settlements, contract agency funding, income support programs and ERCB/AUC transition costs.

Debt Servicing Cost – $5 million decrease due to reduced in-year borrowing.

EXPENSE SUMMARY

(millions of dollars)

	2007-08			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Program Expense				
Operating expense [a]	27,019	**27,267**	248	181
Capital grants [b]	4,656	**5,182**	526	106
Natural gas rebates	477	**313**	(164)	(28)
Disaster/emergency assistance	50	**247**	197	-
Capital Amortization and nominal sum disposals	625	**616**	(9)	(9)
Dedicated revenue/expense increases/(decreases) [c]	-	**(92)**	(92)	39
Total Program Expense	32,827	**33,533**	706	289
Debt Servicing Costs	235	**230**	(5)	-
Total Expense	33,062	**33,763**	701	289

a Of the $248 million net increase in operating expense, $230 million is funded from the Contingency Allowance and $18 million in lapses from budgeted capital grants and Capital Amortization.

b There is $535 million increase in capital grants funded from the Capital Account less $9 million in lapsed budgeted capital grants.

c Dedicated revenue/expense changes – Advanced Education and Technology: $4.2 million increase for ARC external research contracts; Agriculture and Food: net $135 million reduction primarily related to the federal AgriStability/CAIS program; Education: $15.3 million increase for French Language programs and Learning Resources Centre; Finance: $15.5 million increase for ACFA lending; Health and Wellness: $1.9 million net decrease in various programs; Infrastructure and Transportation: $2.4 million increase for property operations; Solicitor General and Public Security: $5 million increase for Enhanced Policing Program and Victims of Crime Fund; Tourism, Parks, Recreation and Culture: $2.6 million increase for a donation and other programs.

EXPENSE BY MINISTRY

(millions of dollars)

	2007-08				
		3rd Quarter	Change from		
	Budget[a]	Forecast	Budget	2nd Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	93	**90**	(3)	(3)	MLA costs and allowances
Advanced Education and Technology	3,108	**3,249**	141	(4)	Post-secondary facility infrastructure
Agriculture and Food	1,026	**864**	(162)	(12)	Lower AgriStability/CAIS expenses
Children's Services	972	**982**	10	-	Contracted agency recruitment/retention
Education	5,447	**5,624**	177	57	Capital maintenance/payment to teachers
Employment, Immigration and Industry	854	**869**	15	9	Income Supports programs
Energy	300	**313**	13	10	ERCB and AUC transition costs
Environment	164	**270**	106	103	Legal settlement/landfill development
Executive Council	23	**24**	1	-	Salary settlements
Finance	827	**855**	28	28	Pension contribution on behalf of teachers
Health and Wellness	12,072	**12,126**	54	(2)	Capital maintenance and renewal
Infrastructure and Transportation	2,967	**2,920**	(47)	70	Lower natural gas rebates
International, Intergovernmental and Aboriginal Relations	68	**68**	-	-	
Justice	383	**392**	9	-	Salary settlements/prosecution services
Municipal Affairs and Housing	837	**1,034**	197	48	Affordable housing/flood assistance
Seniors and Community Supports	1,765	**1,776**	11	(4)	Affordable supportive living projects
Service Alberta	279	**277**	(2)	(6)	Decreases in amortization expense
Solicitor General and Public Security	512	**520**	8	(1)	Salary settlements
Sustainable Resource Development	354	**504**	150	(2)	Forest fires/mountain pine beetles
Tourism, Parks, Recreation and Culture	757	**759**	2	-	Capital maintenance and renewal/donation
Treasury Board	19	**17**	(2)	(2)	Program lapse
Total Program Expense	32,827	**33,533**	706	289	
Debt Servicing Costs	235	**230**	(5)	-	Reduced borrowing
Total Expense	33,062	**33,763**	701	289	

a Budget and quarterly numbers have been restated to reflect transfers for 'capital for emergent projects' totalling $51.6 million, and transfers for capital project planning totalling $11.5 million, from Infrastructure and Transportation to other ministries; and to reflect reclassification of $83 million in capital grants and $4 million in operating expense to Capital Investment.

CAPITAL PLAN

2007-08 capital spending is forecast at $7.2 billion, up a net $511 million from budget and $107 million from second quarter. This includes capital investment in provincial government assets and capital grants to local authorities and other infrastructure support.

Municipal Infrastructure Support – Allocation of $1.5 billion, $85 million higher than budgeted. Increases include $78 million in accelerated payments from the City Transportation Fund, $21 million under the Municipal Sustainability Initiative, $15 million for the Wood Buffalo landfill and $11 million in other projects. The increases are partly offset by $40 million in deferred spending related to tank site remediation costs, the Canada-Alberta Municipal Rural Infrastructure Fund and other projects.

Provincial Highway Network – Allocation of $1.4 billion, $93 million more than budgeted, due mainly to carry-over unfinished 2006-07 projects.

Health Facilities and Equipment – Allocation of $1.3 billion, $92 million higher than budgeted. This reflects a $58 million increase for capital maintenance and renewal, $7 million for electronic health records transferred from operating expense, and $27 million transferred from capital for emergent projects and capital planning funds.

Post-secondary Facilities – Total allocation of $906 million, $159 million higher than budgeted, consisting of $111 million for capital maintenance and renewal, $30 million for cost escalation on the U of A utility system expansion, $16 million transferred from capital for emergent projects and capital planning funds, and $2 million for other projects.

Schools – Allocation of $619 million, $111 million higher than budgeted, reflecting $97 million for capital maintenance and renewal and $14 million transferred from capital for emergent projects and capital planning funds.

Community Facilities – Allocation of $377 million, a decrease of $30 million from budget, comprising a decrease of $77 million due to Royal Alberta Museum project delays, partly offset by increases of $29 million for capital maintenance and renewal and $18 million to carry-over unfinished 2006-07 projects.

Water and Wastewater Management – Allocation of $184 million, $25 million lower than budgeted. The decrease is primarily due to rescheduling *Water for Life* grants to next year.

Housing, Government Facilities and Equipment, and Other Capital – Allocation of $801 million, up a net $95 million from budget. Increases of $141 million for affordable housing and assisted living projects, $23 million for capital maintenance and renewal and $4 million in other projects and transfers are partly offset by a $73 million lapse due to construction delays.

Capital for Emergent Projects – $69 million lower than budgeted, comprising $51 million reallocated to other areas of the Capital Plan and $25 million moved to 2008-09, offset by $7 million carried over from 2006-07.

CAPITAL PLAN SUMMARY [a]

(millions of dollars)

	2007-08			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Municipal infrastructure support	1,402	**1,487**	85	116
Provincial highway network	1,342	**1,435**	93	139
Health facilities and equipment	1,220	**1,312**	92	12
Post-secondary facilities	747	**906**	159	-
Schools	508	**619**	111	-
Community facilities	407	**377**	(30)	(78)
Water and wastewater management	209	**184**	(25)	(27)
Housing, government facilities and equipment, and other capital	706	**801**	95	(61)
Capital for emergent projects	166	**97**	(69)	6
Total Capital Plan	6,707	**7,218**	511	107
To be funded by				
Current-year revenue	2,788	**2,769**	(19)	(1)
Capital Account	3,717	**4,225**	508	86
Alternative financing including P3s	202	**224**	22	22
Total Capital Plan	6,707	**7,218**	511	107

a Budget and quarterly numbers have been restated to reflect accounting presentation changes.

NET FINANCIAL AND CAPITAL ASSETS

Net Assets – Net assets at March 31, 2008 are forecast at $44.7 billion.

Heritage Fund – The forecast book value of the Heritage Fund is $16.6 billion, $1.6 billion higher than March 31, 2007. The increase includes $451 million for inflation-proofing and an additional $1.1 billion deposit from allocating one-third of the cash available from a higher-than-budgeted surplus to savings.

Capital Account – Assets are forecast at $7.8 billion, a $1.7 billion increase from March 31, 2007. The increase reflects a $2.7 billion in-year allocation:

- $455 million from higher-than-forecast 2006-07 fourth quarter results;
- $1.65 billion from the increase in the 2007-08 first and second quarter surplus;
- $556 million from the increase in the 2007-08 third quarter surplus.

These are offset by $967 million in withdrawals, of which $459 million was budgeted and $508 million supports higher in-year capital spending.

Endowment and Other Funds – Assets are forecast at $3.9 billion, up $453 million from March 31, 2007. This reflects the $150 million budgeted deposit to the Medical Research Endowment Fund, the $227 million allocation to the Scholarship Fund from the 2006-07 fourth quarter results, and a $63 million deposit into the Climate Change and Emissions Management Fund.

Pension Obligations – Forecast at $8 billion, an increase of $2.4 billion from March 31, 2007. This reflects the assumption of the teachers' $2.2 billion pre-1992 pension obligation and a $226 million increase in other pension obligations in 2007-08. These increases are non-cash requirements and as such do not affect the cash available for allocation.

Accumulated Debt/Debt Retirement Account – Sufficient funds are available to repay the remaining accumulated debt as it matures.

BALANCE SHEET

(millions of dollars)

	at March 31				
	2007	2008			
			3rd Quarter	Change from	
	Actual	Budget[a]	Forecast	Budget	2007 Actual
Financial Assets					
Heritage Fund external investments	15,028	15,312	**16,582**	1,270	1,554
Self-supporting lending organizations	7,271	8,207	**7,961**	(246)	690
Alberta Sustainability Fund	7,653	7,653	**7,653**	-	-
Endowment and other funds[b]	3,448	3,594	**3,901**	307	453
Capital Account	6,091	5,632	**7,784**	2,152	1,693
Debt Retirement Account	2,035	1,789	**1,789**	-	(246)
Other financial assets	9,488	10,450	**8,650**	(1,800)	(838)
Total Financial Assets	51,014	52,637	**54,320**	1,683	3,306
Liabilities					
Accumulated debt	2,030	1,784	**1,784**	-	(246)
Pension obligations	5,593	5,710	**8,034**	2,324	2,441
Self-supporting lending organizations	6,661	7,498	**7,276**	(222)	615
Other liabilities	6,276	6,393	**6,412**	19	136
Total Liabilities	20,560	21,385	**23,506**	2,121	2,946
Net Financial Assets	30,454	31,252	**30,814**	(438)	360
Capital assets and inventories of supplies	12,429	13,784	**13,849**	65	1,420
Net Assets	42,883	45,036	**44,663**	(373)	1,780
Adjustment for pension obligations	5,593	5,710	**8,034**	2,324	2,441
Net Assets for Fiscal Policy Purposes[c]	48,476	50,746	**52,697**	1,951	4,221

a Budget numbers have been restated to reflect 2006-07 actual results.

b Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund, Energy Innovation Fund and Climate Change and Emissions Management Fund.

c Under the *Fiscal Responsibility Act*. Excludes pension obligations and equity of Crown-controlled SUCH sector organizations.

CAPITAL ACCOUNT

(millions of dollars)

	2006-07	2007-08			
			3rd Quarter	Change from	
	Actual	Budget[a]	Forecast	Budget	2006-07 Actual
Assets at Start of Year	*4,243*	6,091	**6,091**	-	1,848
Allocation to Capital Account:					
Actual/Budgeted	*5,048*	3,258	**3,258**	-	(1,790)
From 2006-07 4th quarter results	-	-	**455**	455	455
From forecast increase to 2007-08 surplus (1st quarter)	-	-	**383**	383	383
From forecast increase to 2007-08 surplus (2nd quarter)	-	-	**1,266**	1,266	1,266
From forecast increase to 2007-08 surplus (3rd quarter)	-	-	**556**	556	556
Total allocation	5,048	3,258	**5,918**	2,660	870
Withdrawals:					
Capital grants to local authorities	*(2,508)*	(2,477)	**(3,012)**	(535)	(504)
Government-owned Capital Investment	*(692)*	(1,240)	**(1,213)**	27	(521)
Total withdrawals	(3,200)	(3,717)	**(4,225)**	(508)	(1,025)
Assets at End of Year	6,091	5,632	**7,784**	2,152	1,693

a Budget numbers have been restated to reflect 2006-07 actual results and accounting presentation changes.

NET FINANCING REQUIREMENTS[a]

(millions of dollars)

	2007-08			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Requirements:				
General Revenue Fund term debt maturities	166	**166**	-	-
School construction loan repayments	59	**59**	-	-
Alberta Social Housing Corporation debt repayment	21	**21**	-	-
Accumulated debt financing requirements	246	**246**	-	-
Agriculture Financial Services Corporation term borrowing requirements	300	**225**	(75)	(25)
Gross financing requirements	546	**471**	(75)	(25)
Cash applied to accumulated debt repayment	(246)	**(246)**	-	-
Net Term Debt Financing Requirements	300	**225**	(75)	(25)
Net term debt financing completed to date	-	**145**	145	145

a Does not include alternative financing for government or financing requirements of Alberta Capital Finance Authority or ATB Financial.

2007–08 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES[a]

	Sensitivities ($ millions)				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	3rd Quarter Forecast
Oil Price WTI (US$/bbl) [b]	-$1.00	-139	_	-139	58.00	79.82
Natural Gas Price (Cdn$/GJ)	-10¢	-98	_	-98	6.75	5.85
Exchange Rate (US¢/Cdn$)	+1¢	-123	_	-123	86.00	96.90
Interest Rates:	+1%	-227	+5	-232		
3-month Canada treasury bills					4.05	4.05
10-year Canada bonds					4.25	4.25
Personal income ($million)	-100	-6	_	-6	149,337	160,666
Corporate profits ($million)	-100	-8	_	-8	56,525	54,253

a Sensitivities based on prices and rates forecast at budget.

b Alberta Wellhead Oil Price (Cdn$/bbl) 58.72 72.17

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2007-08 Capital Investment				2007-08 Capital Amortization			
		3rd Quarter	Change from			3rd Quarter	Change from	
	Budget[b]	Forecast	Budget	2nd Quarter	Budget	Forecast	Budget	2nd Quarter
Legislative Assembly	2	**2**	-	-	1	**1**	-	-
Advanced Education and Technology	11	**12**	1	1	8	**5**	(3)	(3)
Agriculture and Food	15	**15**	-	-	12	**12**	-	-
Children's Services	10	**10**	-	-	3	**3**	-	-
Education	1	**2**	1	1	1	**1**	-	-
Employment, Immigration and Industry	4	**4**	-	-	3	**3**	-	-
Energy	18	**23**	5	5	16	**16**	-	-
Environment	2	**2**	-	-	21	**21**	-	-
Finance	6	**7**	1	(1)	8	**8**	-	-
Health and Wellness	74	**74**	-	-	54	**54**	-	-
Infrastructure and Transportation	1,782	**1,710**	(72)	(7)	337	**328**	(9)	-
Justice	4	**4**	-	-	8	**8**	-	-
Municipal Affairs and Housing	1	**1**	-	-	26	**26**	-	-
Seniors and Community Supports	1	**1**	-	-	1	**1**	-	-
Service Alberta	41	**41**	-	-	40	**34**	(6)	(6)
Solicitor General and Public Security	24	**33**	9	-	1	**1**	-	-
Sustainable Resource Development	32	**34**	2	1	12	**12**	-	-
Tourism, Parks, Recreation and Culture	23	**61**	38	1	14	**14**	-	-
Total Capital Investment/Amortization	2,051	**2,036**	(15)	1	566	**548**	(18)	(9)
Funded from the Capital Account	1,240	**1,213**	(27)	(10)	-	-	-	-
Alternatively financed	202	**224**	22	22	-	-	-	-

a Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventories.

b Budget and quarterly numbers have been restated to reflect a reclassification of $87 million expense to Capital Investment. This includes $83 million in capital grants and $4 million in operating expense.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2007-08			
		3rd Quarter	Change from	
	Budget[b]	Forecast	Budget	2nd Quarter
Advanced Education and Technology	759	**900**	141	-
Agriculture and Food	30	**25**	(5)	(5)
Education	518	**615**	97	-
Employment, Immigration and Industry	9	**1**	(8)	(8)
Energy	2	**2**	-	-
Environment	1	**16**	15	15
Finance	4	**6**	2	-
Health and Wellness	1,173	**1,238**	65	12
Infrastructure and Transportation	1,362	**1,441**	79	61
Municipal Affairs and Housing	456	**560**	104	21
Seniors and Community Supports	30	**71**	41	16
Solicitor General and Public Security	6	**1**	(5)	(5)
Sustainable Resource Development	1	**-**	(1)	(1)
Tourism, Parks, Recreation and Culture	305	**306**	1	-
Total	4,656	**5,182**	526	106
Funded from the Capital Account	2,477	**3,012**	535	97

a Included in program expense. Includes project planning and other capital expense.

b Budget numbers have been restated to reflect transfers for 'capital for emergent projects' totalling $51.6 million, and transfers for capital project planning totalling $11.5 million, from Infrastructure and Transportation to other ministries. Budget numbers have been restated to reflect the reclassification of $83 million of capital grants to Capital Investment.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2007-08			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Assets at Start of Year	7,653	**7,653**	-	-
Transfers to (withdrawals from) the Sustainability Fund				
Non-renewable resource revenue above $5.3 billion	4,960	**5,664**	704	(88)
Other net transfers				
Increase in other revenue	-	**1,948**	1,948	523
Change in dedicated revenue/expense	-	**92**	92	(39)
Decrease (increase) in debt servicing costs	-	**5**	5	-
Withdrawals for disasters/emergencies/natural gas rebates				
Disaster/emergency assistance	(50)	**(247)**	(197)	-
Natural gas rebates	(477)	**(313)**	164	28
Cash transferred to Capital Account for current-year capital grants	(2,477)	**(3,012)**	(535)	(97)
Net transfer to Sustainability Fund	1,956	**4,137**	2,181	327
Adjustments				
Cash adjustments/requirements (excluding Contingency Allowance)	(1,981)	**(597)**	1,384	292
Withdrawal from Capital Account	459	**967**	508	86
Transfer of remaining Contingency Allowance	-	**84**	84	84
Total adjustments	(1,522)	**454**	1,976	462
Assets Prior to Allocation	8,087	**12,244**	4,157	789
Allocation to:				
Heritage Fund - inflation-proofing	(284)	**(451)**	(167)	45
Heritage Fund (1st, 2nd and 3rd quarter allocation)	-	**(1,103)**	(1,103)	(278)
Medical Research Endowment Fund (budget)	(150)	**(150)**	-	-
Scholarship Fund (2006-07 4th quarter allocation)	-	**(227)**	(227)	-
Capital Account (2006-07 4th quarter and 2007-08 quarterly allocations)	-	**(2,660)**	(2,660)	(556)
Assets at End of Year	7,653	**7,653**	-	-

CASH ADJUSTMENTS/REQUIREMENTS

(millions of dollars)

	2007-08			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Capital Investment cash requirements	(1,240)	**(1,213)**	27	11
Retained income of funds and agencies	(365)	**(292)**	73	107
Cash adjustments				
Energy royalties	(313)	**371**	684	230
Other	(63)	**(145)**	(82)	(56)
Cash transferred from 2006-07 4th quarter results	-	**682**	682	-
Contingency Allowance	(314)	**-**	314	265
Total cash adjustments/requirements	(2,295)	**(597)**	1,698	557

ACTUAL RESULTS

FOR THE FIRST NINE MONTHS OF 2007–08

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2007*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are included on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes and regional health authorities that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Revenue excludes the change in equity in Crown-controlled SUCH sector organizations.

Expense includes the province's cash payments towards the unfunded pension obligations. Expense excludes the change in the unfunded pension obligations and the assumption of teachers' portion of pre-1992 unfunded liability amounting to $2.2 billion.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2006-07 figures have been restated where necessary to conform to the 2007-08 presentation.

CONSOLIDATED FISCAL SUMMARY[a]

for the nine months ended December 31, 2007

(millions of dollars)

	First Nine Months		
	2007-08	**2006-07**	**Change**
Revenue			
Income taxes	9,433	7,858	1,575
Other taxes	2,694	2,593	101
Non-renewable resource revenue	8,155	9,343	(1,188)
Transfers from Government of Canada	2,516	2,642	(126)
Net income from commercial operations	1,951	1,930	21
Premiums, fees and licences	1,493	1,415	78
Investment income	2,299	2,187	112
Other	410	329	81
Total Revenue	28,951	28,297	654
Expense			
Program	22,842	20,191	2,651
Debt servicing costs	157	163	(6)
Total Expense	22,999	20,354	2,645
Net Revenue	5,952	7,943	(1,991)

a Includes the Province's cash payments towards the unfunded pension liability. Does not include the change in equity in Crown-controlled SUCH sector organizations, and the change in the unfunded pension obligations.

EXPENSE

for the nine months ended December 31, 2007

(millions of dollars)

	First Nine Months		
	2007-08	2006-07	Change
Program			
Legislative Assembly	54	48	6
Advanced Education and Technology	2,379	1,619	760
Agriculture and Food	741	882	(141)
Children's Services	700	645	55
Education	3,770	3,725	45
Employment, Immigration and Industry	600	663	(63)
Energy	165	140	25
Environment	107	100	7
Executive Council	17	14	3
Finance	712	430	282
Health and Wellness	8,179	7,439	740
Infrastructure and Transportation	1,895	1,677	218
International, Intergovernmental and Aboriginal Relations	37	46	(9)
Justice	273	237	36
Municipal Affairs and Housing	634	214	420
Seniors and Community Supports	1,239	1,138	101
Service Alberta	168	163	5
Solicitor General and Public Security	366	330	36
Sustainable Resource Development	363	366	(3)
Tourism, Parks, Recreation and Culture	434	311	123
Treasury Board	9	4	5
Total Program Expense	22,842	20,191	2,651
Debt servicing costs	157	163	(6)
Total Expense	22,999	20,354	2,645

PRODUCED BY Alberta Finance